ASSESSORS' HANDBOOK
SECTION 510

ASSESSMENT OF POSSESSORY INTERESTS

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FOREWORD

This manual was prepared to meet the daily needs of appraisers who are valuing possessory interests for property tax purposes. New property tax rules, legislation, and court decisions and a change in the format of the appraisal record form necessitated an updating of the 1968 handbook.

After the issuance of the original manual, *Appraisal of Possessory Interests*, in February 1955, the State Supreme Court upheld the theories and principles enunciated therein in its unanimous decision in *De Luz Homes, Inc.* v. *San Diego County* (1955), 45 Cal. 2d 546. The court subsequently reaffirmed the *De Luz Homes* decision in *Texas Co*. v. *Los Angeles County* (1959), 52 Cal. 2d 55, and in *Forster Shipbuilding Co.*, v. *Los Angeles County* (1960), 54 Cal. 2d 450 . The latter decision upheld the provisions of section 107.1 of the Revenue and Taxation Code except for the first paragraph, which was held unconstitutional and subsequently repealed.

A major revision of the manual in 1971 incorporated the possessory interest property tax rules set forth in Title 18 of the California Administrative Code which were adopted subsequent to the publication in 1968 of this division's Assessors' Handbook Section 517, *Appraisal of Possessory Interests-Operations Manual*. It was reviewed by the Standards Association of County Assessors and was adopted by the Board on November 11, 1971.

The present manual was revised in 1974 to include a subchapter of the appraisal of ski resorts. The text, with the exception of some minor editing and updating of legal provisions remains unchanged from the December 1971 publications.

The subchapter on ski resorts was prepared by our staff working in conjunction with the Ski Resort Subcommittee of the Assessors' Standards Committee of the State Association of County Assessors. We believe the contents of the subchapter reflect reasonable solutions to the problems encountered when appraising ski resorts. The subchapter was adopted by the Board on February 20, 1974.

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May 1978

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CHAPTER 1: DEFINITION AND NATURE OF POSSESSORY INTERESTS

Taxable possessory interests are private property interests in publicly owned real property. Such interests are not new in California. In the early days of the 1850's and 1860's, titles to much of California's land had not been perfected; and the settlers had attained a right of possession and control through settlement, possession and use of the property. The assessment rolls in many counties in those early years consisted in very large part of possessory interests.

As discussed in this manual, a possessory interest constitutes a private right to the possession and use of publicly owned property for a period of time less than perpetuity. It is a portion of the bundle of rights that would normally be included in a fee ownership, and its value therefore is normally something less than the value in perpetuity of the whole bundle.

Some people feel that, because the fee is in public ownership, no taxes should be paid, even though the right to present use and possession is privately held. It is true that no taxes are legally assessable on the portion of the estate remaining in the public agency, but our Constitution and more than a hundred years of custom clearly provide that private estates in the publicly owned property are subject to property taxation.

Possessory interests in California constitute many thousands of items of property. Their assessments run into many millions of dollars and amount to a substantial part of the property tax base for our counties, cities and school districts.

LEGAL PROVISIONS

Sections 1 of article XIII of the State Constitution states that all property shall be taxed in proportion to its value unless it is specifically exempt. The term property, as used in this article and section, is declared to include certain specified personal properties and all other matters and things, real, personal, and mixed, capable of private ownership. Section 107 of the Revenue and Taxation Code defines possessory interests to mean:

> (a) possession of, claim to, or right to the possession of land or improvements, except when coupled with ownership of the land or improvements in the same person.
>
> (b) Taxable improvements on tax-exempt land.

The section goes on to say:

> All possessory interests may, in the discretion of the county board of supervisors, be considered as sufficient security for the payment of any taxes levied thereon and

may be placed on the secured roll. This paragraph shall be operative only in counties having a population of 4,000,000 or more.[1]

Leasehold estates for the production of gas, petroleum, and other hydrocarbon substances from beneath the surface of the earth, and other rights relating to such substance which constitute incorporeal hereditaments or profits a prendre, are sufficient security for the payment of taxes levied thereon. Such estates and rights shall not be classified as possessory interests, but shall be placed on the secured roll.

If the tax on any possessory interest or leasehold estate for the production of gas, petroleum and other hydrocarbon substances is unpaid when the last installment of secured taxes become delinquent, the tax collector shall use those collection procedures which are available for the collection of assessments on the unsecured roll.

If the tax on any possessory interest or leasehold estate for the production of gas, petroleum and other hydrocarbon substances remains unpaid at the time set for the sale to the state for taxes carried on the secured roll, such possessory interest tax together with such penalty and costs which may be accrued thereon while on the secured roll shall be transferred to the unsecured roll.

Section 107.1, passed by the Legislature in 1957, became effective on September 11, 1957. When originally passed, it read:

A possessory interest, when arising out of a lease of exempt property, consists of the lessee's interest under such lease and is hereby declared to be personal property within the meaning of Section 14 of Article XIII of the Constitution of the State of California.

The full cash value of such possessory interest is the excess, if any, of the value of the lease on the open market, as determined by the formula contained in the case of *De Luz Homes, Inc*. v. *County of San Diego* (1955), 45 Cal. 2d 546, over the present worth of the rentals under said lease for the unexpired term thereof.

A possessory interest taxable under the provisions of this section shall be assessed to the lessee on the same basis or percentage of valuation employed as to other tangible property on the same roll.

[1] Section 2190 was added to the Revenue and Taxation Code and was approved by the Governor on August 29, 1977. Section 2190 states "Notwithstanding any provision of law to the contrary, the assessment of any possessory interest in tax-exempt real estate to which the exemption authorized by Section 218 of this code has been applied shall be entered on the secured roll; provided however that such assessment shall not be a lien on such tax-exempt real estate and such fact shall be noted on the secured roll. . . ." The exemption referred to is the homeowners' exemption.

> This section applies only to possessory interests created prior to the date on which the decision of the California Supreme Court in *De Luz Homes, Inc*. v. *County of San Diego* (1955), 45 Cal. 2d 546, became final. It does not, however, apply to any of such interests created prior to that date that thereafter have been, or may hereafter be, extended or renewed, irrespective of whether the renewal or extension is provided for in the instrument creating the interest.
>
> This section does not apply to leasehold estates for the production of gas, petroleum and other hydrocarbon substances from beneath the surface of the earth, and other rights relating to such substances which constitute incorporeal hereditaments or profits a prendre.

Section 107.1 has been the subject of two California Supreme Court decisions. In the first (*Texas Co*. v. *County of Los Angeles* (1959), 52 Cal. 2d 55), the court held that the section was inapplicable to 1956 and 1957 taxes since it was not effective until after the 1957 lien date. In the second (*Foster Shipbuilding Co.* v. *County of Los Angeles* (1960), 54 Cal. 2d 450), the court held that the first paragraph of section 107.1, as it then read, declaring possessory interests to be personal property, is unconstitutional while the remainder of the section is valid. Section 107.1 instructed the assessor to deduct the present worth of future rents for those leases entered into **prior to the date that the *De Luz* decision became final (December 25, 1955)** and not since extended or renewed.

Sections 107.2 and 107.3 were added to the code in 1967. These two sections deal entirely with the treatment of royalty payments accruing to tax-exempt entities in the appraisal of properties which produce gas, petroleum and other hydrocarbons.[2]

Section 11 (f) of article XIII of the State Constitution states:

> Any taxable interest of any character, other than a lease for agricultural purposes and an interest of a local government in any land owned by a local government that is subject to taxation pursuant to Section 11(a) of this Article shall be taxed in the same manner as other taxable interests. The aggregate value of all the interests subject to taxation pursuant to Section 11(a), however, shall not exceed the value of all interests in the land less the taxable value of the interest of any local government ascertained as provided in Sections 11(a) to 11(e), inclusive of this Article.

Section 107.4 of the Revenue and Taxation Code, which excluded from the meaning of possessory interest and from property taxation a nonexclusive right to use certain harbor facilities owned by a tax-exempt public agency, was added to the Code in 1970.[3] However, *Sea-Land Service, Inc.* v. *Alameda County*, 36 Cal. App. 3d 837 (decided January 22, 1974, but applying the law in effect prior to the enactment of section 107.4) held that an agreement termed a

[2] Statutes of 1967, p. 4218.
[3] Statutes of 1970, p. 569. Amended, Statutes 1971, p. 3473.

"nonexclusive preferential assignment" in marine terminal facilities owned by a city coupled with continuous exclusive use of the facilities by a shipping company pursuant to the agreement created a taxable possessory interest under section 1, article XIII of the Constitution and section 107. The legislative attempt to reclassify berths, etc., is unconstitutional (*Lucas* v. *County of Monterey* (1977), 65 Cal. App. 3d 947).

Section 201.5 of the Revenue and Taxation Code specifies that possessory interests in real or personal property acquired by or for the California Pollution Control Financing Authority, pursuant to the California Pollution Control Financing Authority Act, are subject to taxation. The section also provides for payment of any deficiency between such tax and a tax levied had the possessory interest holder owned property in full.[4]

WHAT CONSTITUTES A TAXABLE POSSESSORY INTEREST UNDER CALIFORNIA LAW?

The term "possessory interest" as it is used for property taxation purposes in California includes either the possession or the right to possession of real estate whose fee title is held by a tax-exempt public agency. Some public agencies do hold title to property which is taxable to the public agency; e.g., land used for a city airport which was taxable when acquired and which is located outside the city limits (California Constitution, article III, section 11).

Regardless of the type of document evidencing the right to possession, a taxable possessory interest exists whenever a private person or persons have the exclusive right to a beneficial use of tax-exempt publicly owned real property. The fact that only verbal agreements have been made and that no written document exists does not mean that a taxable possessory interest does not exist.[5]

Significantly, if documents do exist, they need not be denominated as leases; some documents are called agreements, some permits, some contracts. The essential point is **possession of real property**--not the title affixed to the document.[6]

It is possible to distinguish between agreements which provide a set term of possession upon execution of the lease and others whereby the term commences on completion of the construction of some improvement and/or upon actual possession. In the former it might be said that the leasehold is vested and in effect on execution, but in the latter case only a contract right exists and the leasehold proper does not commence until the specified term commences.

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[4] Statutes of 1973, Chapter 277, in effect August 15, 1973.

[5] Even a month-to-month tenancy can create a taxable possessory interest. Such a tenancy in housing supplied by an employer whose rights are tax-exempt constitutes a taxable possessory interest. See *McCaslin* v. *DeCamp* (1967), 248 Cal. App. 2d 13.

[6] Revocable Taylor Act permits to graze cattle on public lands were held to be taxable possessory interests, *Board of Supervisors* v. *Archer* (1971), 18 Cal. App. 3d 717. Even though some permits were issued subsequent to the lien date, the history of prior use establishes a "claim to possession"; *Dressler* v. *County of Alpine* (1976), 64 Cal. App. 3d 557.

MONOPOLY RIGHTS

Many of the most valuable possessory interests in California can be characterized as unusual monopoly rights in real estate; for instance, the concessionaire permitted the exclusive right to operate a restaurant in the midst of a large government park. The tiny parcel of land required for this purpose would have little value were it possible for competition to restrict its earning power; but, when the governmental authority artificially restricts this competition, the monopolistic rights of this parcel may enhance its value. These are rights imputable to the real estate and are properly included in the appraised value of the possessory interest.

TERM OF POSSESSION

Leases may carry cancellation clauses which affect the risks and hazards of owning property. The cancellation clauses, however, should not influence judgments concerning the actual full term of possession. The term of possession may be made up of (1) a right already exercised, i.e., the term set forth in the lease; and (2) an unexercised right; e.g., the option of the lessee to continue to use the property for a specified period of time. In a 1965 case (*County of Riverside* v. *Palm-Ramon Development Co.*, 63 Cal. 2d 534), the State Supreme Court upheld the assessor's right to include option periods in the term of possession. An option period should be included, however, only when it can reasonably be concluded that the option will be exercised.[7] This will depend in many instances upon the relationship between the contract rent and the economic rent during the option period.

VALUE OF POSSESSORY INTERESTS

Possessory interests should be appraised at full cash or market value without offset for any rental payments which the possessor must pay. However, it is not the right held in perpetuity that is taxable; it is the possessor's or his successor's or assignee's **rights to the use and to the possession of the property** for a period of time less than perpetuity. Sometimes certain rights are to be appraised rather than all rights to the use of the property during the time frame.

Assessment of property in proportion to its full market value rather than in proportion to the value of the owner's equity therein is an established principle of ad valorem taxation.[8] The principle is applied to property in the hands of a conditional vendee or a mortgagor and results in an assessment which reflects the full cash value of the property even though neither would net that value by its sale (*S.R.A., Inc*. v. *Minnesota*, 327, U.S. 558, 569-570; *Eisley* v. *Mohan*, 31 Cal. 2d 637, 643; *De Luz Homes, Inc*. v. *San Diego County*, 45 Cal. 2d 546, 573). The continued enjoyment of the benefits of ownership of the fee or of a possessory interest is

[7] California Administrative Code, Title 18, section 23.

[8] Prior to 1911, real property was assessed in California according to its value net of any mortgage; and the mortgagee was assessed on the value of the mortgage. A similar rule applied until 1955 in the taxation of possessory interests, not because of constitutional or statutory language but under ruling case law. (See *Blinn Lumber Co.* v. *Los Angeles County*, 216 Cal. 474.) A lessee was assessed only on the value resulting from an excess of economic rent over contract rent, and the lessor's equity was exempt.

dependent on discharging the obligations assumed to secure such benefits, and there is no logical basis for treating those obligations differently when they happen to accrue to a lessor, a conditional vendor, or a mortgagee.

In appraising the possessory interest estate, the appraiser can use one, two or all, of the three conventional appraisal approaches to arrive at an estimate of value. With each approach he may value the possessory interest (1) **directly** by estimating the present worth of the beneficial rights for the probable term of possession or (2) **indirectly** by estimating the present worth of the beneficial rights as if held in perpetuity and then deducting the present worth of the same rights upon reversion.

If the indirect method is followed, it should be understood that the reversionary value is the value of all the property rights reverting to the owner of the fee at the end of the term of possession. Any rights not originally conveyed for private beneficial use would not, of course, be part of the reversion and should not be deducted.[9]

[9] We have deliberately used the word "reversion" in this handbook section to mean something less than the word connotes in the law of property. In property law, "reversion" is the whole estate at the time it reverts to the owner of the fee. For the reason stated on page 11, we use the term to mean only the part of the fee simple estate that has been granted to the lessee.

CHAPTER 2: TYPES OF POSSESSORY INTERESTS

There are practically as many types of possessory interests as there are types of property. In this handbook section, only possessory interests in real property are considered since the Legislature has not, with one exception,[10] provided for the taxation of possessory interests in personal property (*General Dynamics Corp*. v. *Los Angeles County* (1958), 51 Cal. 2d 59). Typical possessory interests are created or evidenced by:

- Forest Service permits, residential and commercial, including ski lifts, resorts, stores and cabins
- Harbor leases, residential, commercial and industrial
- Downtown auto parking leases
- Possession and use of residences owned by public agencies
- Employee housing on tax-exempt land
- Airport permits, including parking and garage leases
- Grazing land permits
- Indian land leases
- The right to cut and remove standing timber on public lands
- Gas, petroleum or other hydrocarbon rights in pubic lands
- Unpatented mining claims
- The possession of public property at harbors, factories, airports, golf courses, marinas, recreation areas, parks, stadiums and government facilities
- Possession and use of government-owned **fixed** equipment
- Air rights over public lands or freeways
- Room television concessions in exempt hospitals

[10] Section 201.5, supra, footnote 3.

CHAPTER 3: TECHNIQUES OF INVENTORYING

Since they are located on publicly owned property, normally outside the scope of local assessment, possessory interests are frequently difficult to discover; and the assessor must search for them diligently.

LOCATING

Various techniques can be followed to obtain a listing or inventory of all possessory interests. The first step is to request all public agencies owning real property in the county to list all "private **uses** of their property." A list of federal, state, and local agencies who may lease public lands to private individuals can be obtained from the State Lands Commission's report "Public Land Ownership in California." A small charge is made for this report which is published every two years. Orders for this report should be addressed to:

Public Land Ownership Report
State Lands Division
1020 12th Street, Second Floor
Sacramento, California 95814

Much information can be obtained by correspondence or by telephone, but frequently visits will have to be made to the person who has custody of the public property. At the same time, copies of the leases and other needed information should be obtained.

MAPPING

A map record of all possessory interests should be kept by parcel number. If a lease involves only a portion of a parcel and the portion can be readily mapped, such maps should be prepared. On occasion, it may be desirable to assign a distinguishing parcel number to the area leased and included in a specific possessory interest assessment.

RECORD KEEPING

A record of all possessory interests should be kept by parcel number for convenience in appraising in the field as well as for convenience in updating. Also, a record of the parcels owned by a particular public agency is helpful, on occasion, for use in contacting the public agencies to update the lease information and other records.

CHAPTER 4: TECHNIQUES OF APPRAISAL

APPRAISAL OF PROPERTY

Techniques applicable to the appraisal of fee-owned properties are described in other manuals or sections of the handbook. The appraiser must be familiar with these techniques before he undertakes the appraisal of possessory interests. Regardless of the mode he selects to appraise the possessory interest, the appraiser will find that the value of the property right as though held in perpetuity is either essential or helpful as a guide. In any event, the value of the right in perpetuity will always provide an upper limit of value for the possessory right.

APPRAISAL OF RIGHTS OF POSSESSION

The objective in the appraisal of a possessory interest is to estimate the value of rights of possession held by the private individual or party. The estimate of value can be made with appraisal techniques and approaches similar to those used to estimate the value of fee-owned properties--the sales comparison, income and cost approaches.

SALES COMPARISON APPROACH

Direct Method

The direct method of applying the sales comparison approach is essentially an equity sales method. The sale price of a possessory interest is an incomplete indicator of its total market value unless all future rents have been prepaid. When future rents for the right of use and possession are unpaid, the sale price serves only as an indication of the equity value. To arrive at the actual consideration in the sale of a possessory interest, the appraiser must add the present worth of the unpaid future contract rents for the reasonable anticipated term of possession to the equity price. The sum of these two segments provides an indication of the total market value of the possessory interest.

In the following example of the direct method of applying the sales comparison approach, it will be assumed that a cabin on U.S. Forest Service land was sold two years ago for $9,500 cash. The reasonable anticipated term of possession is estimated to be 20 years, and the annual contract is $100 per year. Property values have increased in the area by 10 percent since the sale occurred, and an upward time adjustment of $950 is necessary. The subject is considered to be superior to the sold property. An upward adjustment of $400 is needed to bring the sale into conformity with the possessory interest being appraised. The appropriate capitalization rate, inclusive of taxes, is deemed to be 9 percent. An indication of the subject's market value is obtained as follows:

Equity Sale Price	$9,500	
Term Adjustment	0	
Time Adjustment	950	
Plus Present Worth of the Contract Rent ($100/yr. for 20 yrs. @ 9%) $100 x 9.13	913	
Adjusted Sale Price	$11,363	
Comparison Adjustment	400	
Indicated Value of Subject Possessory Interest	$11,763	Say, $11,750

The equity sale price will vary not only with the future rentals assumed, but also with other future obligated costs assumed. When significant, the present worth of obligated costs assumed by the purchaser, such as site restoration at the end of possession, should be **added** to the sale price since this, like rent, is part of the price the lessee agrees to pay for the right of possession.

The equity sale price will also reflect future contractual benefits received by the purchaser. When significant benefits, other than the right of possession, are received by the buyer of the possessory interest, their present worth should be **subtracted** from the sale price to arrive at the value of the right of possession. This part of the purchase price was presumably paid for the contractual benefits rather than for the right of possession. Such benefits might consist of the right to salvage the improvement or to be reimbursed for the improvements' value at termination of possession.

Here again it must be kept in mind that it is the right of possession and use of the property that is being valued and not the equity. In appraising a possessory interest, the appraiser seeks the present worth of the benefits the subject property will yield to the holder of the possessory interest, irrespective of what the owners' equity in the property might be.

The appraisal of an equity, however, is mandatory under section 107.1 of the Revenue and Taxation Code for those possessory interests created by and still operating under unextended or unrenewed leases executed before December 25, 1955. The value of the taxable interest created by such leases is actually the value of the equity, and the present worth of the future rents is not included as a part of value.[11]

Indirect Method

The indirect sales comparison method is commonly called a "residual approach." The value of the right of use and possession is first estimated as though held in perpetuity by the use of sales of comparable fee interests. This value is reduced by the present worth of the rights reverting at

[11] See also Chapter 1684, Statutes of 1967, which provides for assessing only the equity in leases involving petroleum mineral rights when the leases were created before July 26, 1963. The constitutionality of this provision is currently being tested.

expiration of the term of possession to arrive at the value of the possessory interest.[12] By valuing the right as though held in perpetuity rather than valuing the unencumbered fee, the appraiser avoids the necessity of estimating a value of unconveyed rights.

Assume that the right of possession in perpetuity of a motel located on government-owned land is judged by reference to sales of comparable fee-owned properties to have a market value of $50,000. The existing lease has ten years remaining. At the end of the lease it is anticipated that the government will repossess the property. The land has an estimated value of $20,000, and the improvements are valued at $30,000. The improvements have a remaining economic life (REL) of 20 years; and the appropriate rate of return, inclusive of taxes, is 9 percent. The market value of the possessory interest is obtained as follows:

	Land	**Improvement**	
Value of Rights in Perpetuity	$20,000	$30,000	
Reversionary value	$20,000	$15,000*	
Years deferred: rate, factor	10 yrs. @ 9% = .4224		
Present Value of Reversion	$8,448	$6,336	
Preliminary Possessory Interest Value	$11,552	$23,664	
Possessory Interest Value	$11,500	$23,700	
Total Possessory Interest Value			$35,200

* Assuming straight-line depreciation, the reversionary improvement value is computed by the equation:

$$\text{Reversion} = \frac{REL - TERM}{REL} \times \text{Present Value}$$

In the indirect method, the use of an appropriate rate of return, **inclusive of taxes**, to arrive at the present value of the reversion causes concern to many appraisers. Because the reversionary value is tax-exempt, they reason that no tax component should be included in the rate. However, since the value of the rights possessed in perpetuity is established from data taken from a marketplace of taxable properties, the entire estate, including the reversion, is presumed to be taxable. The inclusion of a tax component in the rate used for deferring the reversion will allocate a portion of the total annual tax burden to the present value of the reversionary interest. If the tax component is not added to the rate, the annual tax amount for the entire estate is shifted to the possessory interest portion, thus resulting in an understated possessory interest value.

The value of the rights possessed as if held in perpetuity is the sum of the present value of the reversion and the possessory interest. The sum of these two interests must equal the perpetual

[12] The "rights reverting (to the owner of the fee) at expiration of the term of possession" are usually something less than the unrestricted right to use the property during that term. For simplicity we refer to those rights as the "reversion," although, as explained in footnote 9 on page 6, that term is used in a somewhat different sense in the law of property.

interest. For example, assume we are to determine the value of a five-year possessory interest in land in which the perpetual interest value is worth $100,000, an economic rent of $10,000 inclusive of property taxes, an 8 percent yield rate and a 2 percent allowance for taxes. The value of each interest can be illustrated as follows:

Possessory Interest Value (for five years @ 10%)	
$10,000 x 3.791 (PW of 1 per annum) =	$ 37,910
Reversionary Interest Value (in five years @ 10%)	
$100,000 x .6209 (PW of 1) =	62,090
Value of Perpetual Interest	$100,000

In the above example, the annual tax on the total interest is $2,000 ($100,000 x 2%). In the first year, the tax on the possessory interest will be about $758 ($37,910 x 2%); and the tax allocated to the present value of the reversion will be about $1,242 ($62,090 x 2%). In the following years, everything remaining the same except the term, the taxes on the possessory interest will decrease while taxes allocated to the present value of the reversion will increase. In any given year, the sum of the two amounts will equal $2,000.

It is important to remember that we are valuing only the right of use and possession, which excludes the value of any unconveyed rights. The highest and best uses of recently sold fee properties must be comparable to the permitted use of the possessory interest. When the available sales of fee interests reflect the expectation of a higher and better use, they are not comparable. The expectation of increased incomes from a future change in use is a value attributable to unconveyed rights and not to the possessory interest.

INCOME APPROACH

Direct Method

In the direct method of applying the income approach in the valuation of a possessory interest, the appraiser capitalizes future net returns from the use of the property during the period of possession. Rental payments should not be deducted as an expense item; they are payments for the right of use and possession and must be included in the income capitalized. In some instances, future annual net returns from a possessory interest are difficult to estimate, for these returns must reflect only those beneficial rights held and no more. The imputed economic rent must reflect the restrictions on use inherent in the possessory interest.

To illustrate the direct method of using the income approach, assume that a rancher has a U.S. Forest Service grazing permit allowing him to annually graze 100 head of cattle for two months. Although the grazing permit is issued yearly, discussions with ranchers and the Forest Service, along with an analysis of the available market transactions, indicate that the reasonably anticipated term of possession is approximately 20 years. The economic rental is $4 per animal unit month (AUM) as opposed to an actual contract rental of 80 cents per AUM. A capitalization rate of 7

percent, inclusive of property taxes, is appropriate. The market value of the possessory interest is estimated as follows:

Gross income:	200 AUM @ $4	$ 800
Preliminary possessory interest value (20 yrs. @ 7%) $800 x 10.59 =		$8,472
Possessory Interest Value, Say		$8,500
(Lack of assignability, etc., is reflected in the rate.)		

In the direct income method, the income is capitalized directly into an indication of value.

For example, assume that the total net income prior to property taxes and amortization is $3,000 per year, the capitalization rate is 9 percent, including a property tax component; and both the REL of the improvements and the anticipated term of possession are 20 years. Current economic rent for comparable sites is $900 per year. The capitalized value of the possessory interest may be arrived at as follows:

Net Income	$3,000	
Years/Rate/Factor	20 yr. /9%/9.13	
Total Preliminary Possessory Interest Value $3,000 x 9.13 =	$27,390	Say, $27,400

The total possessory interest value may be allocated in the following manner:

Net Income to Land	$900/yr.	
Years/Rate/Factor	20/9%/9.13	
Preliminary Possessory Interest in Land $900 x 9.13 =	$8,217	Say, $8,200
Total Possessory Interest	$27,400	
Possessory Interest in Land	$8,200	
Possessory Interest in Improvements	$19,200	

The direct income method is preferred when a constant income stream is projected or when the REL of any wasting asset, such as a depreciable improvement, does not exceed the estimated term of possession. The assumed shapes of many income streams, e.g., those conforming to Babcock's second premise and those produced by the incorporation of a straight-line decline income premise, are not adapted to the direct income method.[13]

[13] Present worth tables for a portion of an economic life schedule are not readily available. To employ one of the two income premises mentioned above where the term of possession is short of the economic life of the improvement requires tedious calculation of each of the annual net returns and then a present worth calculation for each of the annual net returns or the development of a whole new set of present worth tables.

The actual contract rent should never be accepted uncritically as the economic rent. It will sometimes be the best available evidence on which to predicate the estimate of economic rent. When used as an **indicator** of the economic rent, the contract rent for a possessory interest should be adjusted upward if, in the appraiser's judgment, the amount of the rental paid has been reduced to reflect improvements constructed at the possessor's expense that will become the property of the public owner after the term of possession. If there are improvements on the land, whether erected at the lessee's expense or at the lessor's, that are to be removed at the expiration of the lease, the cost of removal and of any required site restoration (offset by any salvage value) is part of the price paid for the right of possession. The contract rent should be adjusted upward by the amount of rental necessary to provide for the present worth of these future obligations. Rental adjustments can be obtained by dividing the present worth of the reversionary improvement value, or the present worth of obligated future costs or benefits, by the appropriate present worth of one per annum factor.

For example, assume that the present worth of a reversionary improvement value is $5,000; the appropriate capitalization rate is 10 percent, including a property tax component; and the remaining term of possession is ten years. The annual upward rental adjustment may be arrived at as follows:

$$\$5{,}000 \div 6.14 \text{ (10 yrs. @ 10\%)} = \$814.33$$

The contract rent for a possessory interest, when used as an indication of the economic rent, should also be increased by the amount of property taxes that the lessee reasonably anticipated if the capitalization rate contains a property tax component. A possessory interest rental should not be directly capitalized into an indication of value by the use of a capitalization rate that excludes the tax component. When appraising for property tax purposes, an allowance for property taxes should be provided by adding a property tax component to the capitalization rate rather than subtracting taxes as an expense item. The calculation of taxes necessarily involves an assumption that the appraiser knows the assessed value and consequently the market value of the property.

The amount of the property taxes is dependent upon the result of the appraisal and should not be predetermined in the capitalization process.

Indirect Method

The indirect method of applying the income approach is also a "residual approach." The net income attributable to the right of use and possession is capitalized as if perpetual and then reduced by the present worth of the reversion. The indirect income method should ordinarily be used when the remaining economic life of the wasting assets exceeds the estimated term of possession. As in the direct income method, rental payments should not be deducted; and the estimated economic rent must reflect only those beneficial property rights held by the possessory interest holder.

The value of the property rights as though held in perpetuity should be estimated first by the conventional application of the income approach. The present value of the reversion should then

be subtracted from the value of the rights in perpetuity to arrive at the possessory interest value. An example of a reversionary interest deduction may be found in the indirect method of applying the sales comparison approach.

COST APPROACH

In the cost approach, the value of the possessory interest in land, obtained by the direct or indirect method, is added to the depreciated replacement cost of the improvements reduced by the present worth, if any, of the improvement value at the end of the term of possession. The cost approach is useful in most cases; but it should be checked, if possible, by using the other approaches.

Land Value

The value of the possessory interest in land may be estimated directly by the land residual technique or by reference to the selling prices of possessory interests in comparable sites. Indications of land value may be obtained from sales of possessory interests in both improved and unimproved properties by adding the present worth of the future contract land rents to the equity price paid for the land. When using the land residual technique, the improvement should reflect the highest and best **permitted** use. This may or may not be the improvement that would reflect the highest and best use of the property if it were owned in fee. Land income developed from a highest and best permitted use is income attributable to the rights possessed and can be capitalized directly to obtain an indication of the value of the possessory interest in the land.

The value of the possessory interest in land may also be estimated indirectly by the use of sales of fee interests that are comparable to the rights possessed but reduced by the present worth of the reversion. In many cases a valid indication of land value can also be obtained from sales of undeveloped land plus the expense of making it usable. However, it should be emphasized that the developed land value may have little relationship to the cost of raw land acquisition plus development costs.

Improvement Value

In the cost approach, the value of the possessory interest in improvements is directly measured by reproduction or replacement cost less depreciation when the REL of the improvements does not exceed the estimated term of possession; and the permitted use of the improvement is also its highest and best use.

When the REL of the improvement exceeds the term of possession, the present worth of the reversionary improvement value must be deducted to arrive at the possessory interest value. Improvements costs and depreciation should be estimated by standard procedures; however, the effects of any use restriction or abnormal obsolescence must be recognized.

It is important to note that the market usually values or purchases property as a unit rather than as a summation of the parts. The appraiser can analyze and value the land or improvements of a possessory interest separately, but he should not forget that his final goal is the value of the total unit. As in any appraisal, the possessory interest should be valued by all available approaches.

When more than one indirect approach is used, the indicated value of the perpetual rights obtained from each approach should be correlated into a value estimate of the rights if held in perpetuity before deducting the present worth of the reversion. The available direct and indirect approaches are in turn correlated into the final possessory interest value.

TERM OF POSSESSION

One of the most difficult tasks in the appraisal of many possessory interests is the estimation of the probable future term of possession. Regardless of the method used to appraise a possessory interest, the appraiser faces the task of estimating this term. With income properties owned in fee, the appraiser must estimate the present worth of future benefits and, in doing so, must estimate the probable duration of the future income stream. In the appraisal of possessory interests, the appraiser must similarly estimate the term of possession; evidence for his estimate is found in the characteristics of possessory interests being appraised.

The written agreement creating the possessory interests offers the primary indication of a term of possession. Normally, this indication is spelled out in specific language. However, when the term of possession specified by the written agreement is determined to be in conflict with the term of possession reasonably anticipated by possessors and prospective purchasers of possessory interests, the reasonably anticipated term of possession should be used instead of the stated period. The "intent" of the lessor and lessee is a strong guide in the estimation of a reasonably anticipated term of possession.[14] Intent is indicated by such evidence as selling prices of possessory interest, the property's past use, the policy of the public agency that owns the fee, the actions of both the lessor and the lessee and the life expectancy of the improvements erected by the lessee. For instance, if a lessee constructs, at his own expense, a building with a 50-year probable economic life on a possessory interest created by a lease for 10 years and has agreed to pay normal rent over the term of the lease,[15] the appraiser has evidence of a term of possession beyond the 10-year period.

Selection of the term is of the utmost importance in the appraisal process. A one-year term selection means that the possessory interest will have only a nominal fraction of the value of the fee interest; selection of a longer term may mean that the value of the possessory interest will approach the value of the fee. When the purpose of the appraiser is to estimate market value, the estimated term of possession must reflect the consensus of the relevant marketplace.

Consistency in the selection of the term for appraisals of the property is a significant factor if an anticipated term rather than the actual remaining term is selected. Otherwise a reviewing court

[14] In the *De Luz Homes* decision, the court used the "anticipation" of the prospective purchaser rather than that of the present owner as a measure of the possessory interest value.

[15] If less than normal rent is contracted and a building is constructed which (1) has a life greater than the lease term and (2) at some time becomes the lessor's property, the reversion of the building may be consider all or part of the rental payment rather than evidence of a longer expected possession.

may order the use of the remaining term (*American Airlines, Inc*. v. *County of Los Angeles* (1976), 65 Cal. App. 3d 325).

CANCELLATION AND ASSIGNMENT

Leases made between public agencies and private parties often contain a cancellation clause as well as an assignment clause. Both clauses affect the value of possessory interests. Any restriction of assignment powers detracts from the value of a possessory interest. The appraiser can estimate the probability of cancellation by looking to either the policy, the practice, the history or the announced intentions of the public agency that owns the fee. If cancellation powers are likely to be exercised, this likelihood will often be well known by both lessor and lessee. At times, cancellation results from an infraction of the agreement. However, cancellation caused by infractions is not of major concern to the appraiser. Just like the prudent buyer, seller or manager of fee-owned property, the prudent lessee is the criterion the appraiser uses in the valuation of possessory interests.[16]

Many leases contain a clause requiring the lessor's approval of an assignment. In the assignment of many possessory interests, the transfer is approved as long as the assignee is a reasonable substitute for the assignor. Since approval of an assignment is required in the vast majority of possessory interest agreements, the lack of assignability is reflected in the rate used by the appraiser when valuing the property. There is no rule of thumb by which to estimate the appropriate component in the rate. However, any rate used should be a reflection of the relevant marketplace.

PERMITTED USE

Occasionally, the conditions of an agreement preclude the highest and best use of the property, but in a large number of leases the permitted use and the highest and best use coincide. In those instances where the permitted use is not the highest and best use, the value of the property for the use allowed is lower than the value it would have if the lessee owned it in fee. In a sense, the permitted use of a possessory interest is much like a zoning restriction. The permitted use or the zoning restriction is both limiting and protective. The appraiser's estimate of the possessory interest value must only reflect the highest and best **permitted** use.

[16] See *De Luz Homes* v. *San Diego County* (1955), 45 Cal. 2d 546.

CHAPTER 5: SKI RESORTS

Many possessory interests may be classed as special-purpose properties; however, this publication is not designed to provide the complete details for the appraisal of each type of property. Only one special-purpose property that is troublesome to the appraiser will be discussed.

INTRODUCTION

A ski resort may be defined as a commercial development planned and managed as a unit to provide those services and facilities required by the skiing public. Meeting the needs for today's growing number of skiing enthusiasts requires sizable investments in land, structures, lifts, tows, machinery and equipment. Many California resorts have developed into businesses with assets totaling millions of dollars. The rapid expansion of the industry over the last decade has created new and challenging problems for the property tax appraiser, some of which will be discussed in this subchapter.

In California, thousands of acres of desirable ski terrain is located on publicly owned land. Although governmental entities are not willing to sell this land they will lease it out for private development in order to provide the recreational services the public desires. These lease arrangements create taxable possessory interests. The purpose of this subchapter is to discuss the application of techniques for valuing resorts located on publicly owned land. It should be noted, however, that the validity of the traditional value approaches discussed here will be equally applicable to resorts located on privately owned land.

FACTORS AFFECTING VALUE

The market value of a ski resort is directly related to the flow of income that may be anticipated from its future operation. There are many factors that will affect the earning power of a resort--location, adequacy of improvements and facilities and management are of prime importance and will warrant discussion here.

LOCATION

The desirability of a particular location is influenced by its proximity relative to people having the desire and ability to ski. The distance skiers must travel and the availability of food and lodging facilities have a measurable effect on skier attendance and income potential.

Resorts with good access to major highways and roads that are maintained and open to the public during the winter season usually have the best attendance record. The income-producing capabilities of a resort may be impaired if costs for service road construction and repairs are to be borne by the operation. The same impairment occurs when utility services are not readily available.

A good snow belt area with acceptable climatic conditions is a prime requisite of location. Sites below timberline are usually desirable. Good ski terrain does exist at higher elevations but is more prone to high winds, low temperatures and other adverse skiing conditions. The amount of snowfall and length of the snow season sets the skiable days per year and has a direct bearing on income capabilities for any given resort.

A good location requires a proper mix of land types for placing lifts, ski trails, lodges, etc., necessary to support the operation. This subject will be further discussed with **Land Valuation**.

ADEQUACY OF IMPROVEMENTS AND FACILITIES

It is essential that a ski resort have all the necessary facilities to meet the needs of its skier population and to carry on business activities. A modern lodge complex may include a restaurant, snack bar, sun deck, ski shop, rental departments, ticket office, first aid facilities, restrooms, nursery, administrative offices, storage rooms and living accommodations for its employees. The lodge needs to be conveniently located at the base of the ski slopes with easy access from main parking areas. Lodge buildings need to be of heavy construction that will support snow loads. Construction costs tend to be high, particularly in isolated areas with rocky soil conditions.

A modern resort will transport skiers to the tops of the slopes via chair lifts, T-bars and rope tows. Gondolas and trams are common in the larger resorts. Aerial and chair lifts must comply with requirements of the California Department of Industrial Relations and are subject to periodic safety checks. The rated safe capacity (passengers/hour) of lift facilities should be adequate to meet the present demand of the operation, and the type of lift should be tailored to slope ascent and weather conditions. The functional layout of lifts and tows is important. Placement in wind channels or areas where snow drifting occurs can result in excessive maintenance and repair costs and inoperable lifts during the ski season. Lifts and tows should be arranged to provide access to slopes and trails for beginning, intermediate and advanced skiers.

Average life experiences of the various lift components and accompanying equipment may be available from the manufacturers. It should be kept in mind that lift design and capabilities are continually changing to meet the requirements of the skier population. Obsolete lifts and deficient structures are a major cause of depreciation, particularly in older resorts.

A typical operation will require a sizable investment in personal property. Such items as ski rental equipment, fire prevention equipment, snow removal equipment, automotive equipment, shop tools, lodge furnishings, bar and restaurant equipment and office furnishings and equipment are necessary for most operations.

For ski resorts located on U.S. Forest Service land, a description of existing and proposed improvements and facilities with necessary specifications and requirements can usually be found in the master plan for developing the area.

MANAGEMENT

Since a ski resort is a specialized type of operation, it should be managed by someone who is well acquainted with the industry. Management will be a prime factor in the success or failure of a resort. Good management requires, among other things, a keen knowledge of the industry with sensitivity to the changes that are taking place, the ability to select and develop qualified personnel necessary for the operation, maintenance of an accurate set of records and the willingness to spend sufficient funds for preventive maintenance, repairs and expansion of the facilities as well as for advertising and promoting enterprise activities. Implementation of an **effective** safety plan whose objective is the elimination of safety hazards and the assurance of an organized ski patrol is a reflection of good management.

Environmental concerns today are having an impact on ski resort lands. Ecologists oppose slope development that results in broad, bare and eroded terrain. To meet these challenges, management must be familiar with modern methods of ski hill planning; i.e., slope shaping, drainage and revegetation techniques.

DATA REQUIREMENTS AND SOURCES

Ski resorts are not unique in that the amount and accuracy of data gathered by the appraiser will be directly related to the quality of his end product. The appraiser should make special effort to obtain all data pertaining to the location and site; the physical features of buildings, structures, machinery and equipment; and the necessary sales, costs, income and expense data essential to process the three approaches to value.

A primary source of data is the books and records of owners and operators. In the data collection process, it is desirable, particularly with large resorts, to have an auditor appraiser working in conjunction with a real property appraiser. A periodic detailed audit of the owner's records is needed to obtain departmental income and to gather descriptions and historical costs of improvements, lift facilities, machinery and equipment (including such detail as area, length, use and capacity), plus costs of tree removal, road construction, slope preparation and other land development costs.

It is also vital that the appraiser obtain a copy of the lease or permit and become familiar with its contents. Such documents are usually the basis for the rights being appraised and will identify the permitted uses of the property and the obligations of the landlord and tenant regarding such matters as payment of taxes and fees, maintenance and repairs, periodic inspections, safety regulations, disposition of lessee-erected improvements and road construction and repairs The documents will usually contain data that are helpful for estimating terms of possession.

U.S. Forest Service Recreational Area Master Plans are usually available for resorts located on Forest Service land. A resort's "master plan" will be quite helpful for identifying the capacity of the area, existing and potential ski terrain, commercial areas, adequacy of parking and future potential of the area, as well as for providing an overall view of the functional layout.

Acquisition and installation costs and physical life patterns of trams, lifts and tows can sometimes be obtained from the major manufacturers. The ski industry periodically publishes economic and financial statistics having a bearing upon the health, growth, profitableness and financial performance of the industry.

LAND VALUATION

The appraisal of private land or public land leased for a ski resort use is a complex valuation problem. Ski resorts may consist of several different types of land with specific uses. Within the array of land-use types are: cleared land immediately below the lift, cleared land used for ski trails, land used for commercial development (lodges, parking, etc.), uncleared raw mountain land used for buffer strips between ski trails to prevent accidents and provide wind breaks and other surrounding land unsuitable for skiing but important for providing the aesthetic open-space normally associated with skiing. Also included in the appraisal of many resorts is land suitable for future development; i.e., land which is proposed for development in the resort's master plan and which is economically feasible to develop.

APPRAISAL PROCEDURE

The appraiser should determine and identify the land area necessary to the ski resort operation. This will generally include developed commercial land and both skiable and nonskiable terrain. This land can be valued by the comparative sales approach and the income approach.

Land that does not contribute in any significant degree to the present income stream of the resort should be analyzed and appraised separately. A fair return to this land is not a legitimate charge against the present earning capability of the resort.

LAND SALES

Utilization of the comparative sales approach requires that the appraiser have knowledge of sales of lands similar to that being appraised. Environmental influences are of particular importance in judging comparability. Sales of developed ski terrain or undeveloped terrain **suitable** for ski development are essential. If the appraiser chooses to use raw land values to arrive at the value of an improved site, he must add to the price the typical cost of land improvement for the area involved.

When comparable sales are available, the appraiser should weight the value indication arrived at by the use of these sales quite heavily. It should be remembered, however, that comparable sales--developed or undeveloped--may not exist and that any attempt to value ski resort property using land sales not suitable for development is invalid.

CAPITALIZING LAND RENT

Derivation of a land value indicator by the income approach is accomplished by estimating an economic land rental for the developed site and capitalizing this income into an indicator of value. Land rental can be estimated by both direct comparison and a residual technique.

Land Residual Technique

Application of the land residual technique requires that the improvements be new and reflect the highest and best permitted use of the land (the reader is referred to page 17 for a discussion of permitted use). The land value indicated by this technique is applicable only to the land necessary to the ski resort operation. Land suited for future permissible development should be valued separately and added to the value indicated by the residual approach. Land income developed from a highest and best permitted use is income attributable to the rights possessed in the developed land and can be capitalized directly to obtain an indication of the value of the possessory interest in land.

Comparable Land Rents

Capitalizing the land rental attributable to the improved site may result in a valid indication of land value. As in any income approach, the economic rental must be capitalized. The economic rental may or may not be the same as the contract rental and should be obtained from an analysis of the existing land rentals of comparable ski resorts. The appraiser should be aware that contract rental schedules developed by some governmental agencies are not based on market rental surveys and may not be representative of economic rents.

Rental Analysis

U.S. Forest Service percentage rentals usually reflect only a part of the actual costs of possession that a possessory interest holder must pay for a developed ski resort site. This is due primarily because the tenant bears the land development costs and, in many cases, the costs of other required improvements and obligations. If the appraiser intends to use the forest service rents, or any contract rent for that matter, to arrive at the value of an improved site, he should first analyze the rents in the following manner:

1. Determine the annual base rent--normally this is the adjusted gross income as defined in the lease multiplied by the contractual rental percentage.

2. Add to the base rent the cost of other annual **contractual** obligations imposed by the lessor that are not considered normal operating expenses for the typical ski resort. This may include the cost of such items as off-premise snow removal, maintenance of off-premise facilities, erosion control, insect control and any other form of hidden rent payments.

3. Add to the base rent the annual rent imputable to the reversionary value of lessee-erected improvements that will be retained by the lessor upon expiration of the lease and rent imputable to any other obligation incurred by the lessee upon expiration of the lease.

4. Add to the base rent the annual rent imputable to the lessee's cost of constructing access roads and site improvements; i.e., slope clearance and preparation, tree removal and land excavation.

The reader will recall that contract rental analysis was previously discussed on page 14. However, an example may still prove helpful here. For sake of demonstration, assume a 10 percent capitalization rate excluding a component for taxes, a 30-year term of possession and that reverting improvements have a present value of $10,000. A rental adjustment may then be arrived at as follows:

Base Percentage Rent:	
$1,500,000 Adjusted Gross Sales @ 2%	$ 30,000
Annual Obligations Imposed by Lessor:	
Off-Premise Snow Removal	1,500
Erosion Control	3,000
Rent Imputable to Reverting Improvements:	
$10,000 ÷ 9.43 (PW Factor - 30 yrs. @ 10%)	1,060
Rent Imputable to Land Improvements:	
Road Construction - $125,000 ÷ 9.43	13,250
Site Preparation - $150,000 ÷ 9.43	15,900
Total Annual Land Rent Net of Taxes	$ 64,710

LAND VALUE ESTIMATE

Although an indication of land value can be obtained from sales of undeveloped land plus the expense of making it usable, it should be emphasized that the cost of raw land acquisition plus development costs need not result in a reliable value indicator for an improved site. It is true also that raw land rents adjusted by cost increments reflecting contractual obligations and site improvement are not necessarily accurate measures of economic rent for an improved site and that appraisers have long been aware of the weaknesses of the land residual technique. Yet the appraiser must make do with the data at his disposal. It is suggested that all the above techniques be considered in arriving at a final value estimate.

TOTAL PROPERTY VALUE

The same appraisal techniques are used in the appraisal of ski resorts as are used in the appraisal of other income-producing properties. It is assumed that the reader is familiar with the application of the traditional value approaches, so any discussion here will be brief.

It is essential that the appraiser employ a total property concept in valuing ski resorts. The total property estimate should include all land, improvements and personal property necessary to continue producing an income flow to the operation. The appraiser should be aware that although the personal property is privately rather than publicly owned, it is still an integral part of the operation and must be considered as such in a total property appraisal. The real property

appraiser and auditor appraiser should work together in order to arrive at proper value allocations.

COMPARATIVE SALES APPROACH

When estimating the value of a property by the sales comparison approach, the appraiser considers the price or prices at which the property and comparable properties have recently sold. This is the preferred method when reliable market data are available.

The application of this approach to ski resorts has been severely limited primarily because resort properties are infrequently sold and are usually not close substitutes for other property of the same type. The few sales that do exist are difficult to use in making comparisons and require the appraiser to make adjustments for such items as financing, size, time, location and management. Also, those resorts that do sell are likely to be the unsuccessful operations and may not be representative of ski resorts generally. If sales activity increases with the growth of the industry, the comparative approach may prove to be more fruitful.

COST APPROACH

Application of the cost approach consists of estimating the current reproduction or replacement cost new of the improvements and personal property, deducting from this cost an estimate of depreciation and adding the remainder to the market value of the land. This approach is a commonly employed method of appraising ski resorts primarily because it can be applied to all resorts.

Estimating Cost New

The most objective aspect of the cost approach is estimating cost new. All buildings, structures, lifts, machinery, equipment and furnishings are inspected, inventoried and described in detail on the appraisal records. Cost new can then be developed by the following methods.

Factored Historical Cost

The original acquisition costs obtained from the owner's accounting records are factored to a current reproduction cost new by the use of cost indexes published by the Board and other reputable services.

The reader is referred to Assessors' Handbook Sections 533, *Industrial Building Costs and Building Cost Indices*, and 581, *Equipment Index Factors and Inventory Ratios*, for procedures and indexes for buildings, machinery and equipment. The validity of this method will depend on whether the indexes accurately measure the increase in cost over time and whether original costs are accurate and representative. The appraiser must be certain that original costs include all labor and installation costs, freight, sales and use taxes and other such items.[17] It should be emphasized that this method develops the cost of replacing an exact replica; consequently, it is best suited for

[17] Ski resort operators often expense labor costs associated with capital improvements. When this occurs, original costs shown on book records will be understated.

new, modern resorts. Factoring up the original costs of old, obsolete lifts and deficient structures lacks validity.

Replacement Cost

The cost of replacing a similar substitute property with equivalent utility can be derived by using square foot and unit in-place cost factors provided in various sections of the Assessors' Handbook or costs published by other appraisal services and the major manufacturers. This method is best suited for older resorts, since it tends to eliminate obsolescence from the cost estimate. The appraiser should be aware, however, that replacement costs can vary considerably between otherwise similar properties due to elevation, topography and the type of terrain or surface formation. The appraiser must account for these differences since they are not incorporated in the data available from the above-mentioned sources.

Depreciation

The most crucial and subjective element of the cost approach is the estimate of depreciation; i.e., the loss in value caused by physical deterioration, functional obsolescence and economic obsolescence. An excellent discussion of depreciation and its causes is contained in Assessors' Handbook Section 501, *General Appraisal Manual*.

The ski resort environment subjects resort facilities to severe physical factors. Since the facilities are subject to inspections by the U.S. Forest Service and the Department of Industrial Relations, the owner must provide for a good maintenance program. An operating chairlift or tram must be well maintained physically to be safe for public use.

Functional obsolescence is a major cause of depreciation in ski resorts. It usually occurs when demands of the skier population are not being met. Some examples of functional obsolescence are insufficient parking area and base facilities, inadequate number or capacity of lifts and tows, improper placement of lifts and tows and lack of suitable area for expansion.

Economic obsolescence, although not a common cause of depreciation, is usually beyond the control of the owner or operator. This fact might be demonstrated by the adverse effect of aggressive competition, zoning restriction, or environmental impact studies on a major ski area.

In an attempt to measure depreciation accurately, the appraiser is advised to proceed as follows:

1. Personally inspect the facilities and inquire of the operator about their adequacy and the necessary expenditures for maintenance and repairs. Observe the facilities' physical condition and functional utility, make judgments as to present condition and remaining life and attempt to measure any loss in value. The cost-to-cure method and capitalization of net income loss resulting from obsolescence may prove helpful in this estimate.

2. Utilize average life tables and percent good tables published in various sections of the Assessors' Handbook. Keep in mind that these tables are, at best, guides to normal depreciation and that any extreme conditions will have to be accounted for through observation by the appraiser.

3. Make reference to average life studies and depreciation schedules published by the industry, manufacturers and appraisal reference services.

Validity of the Cost Approach

The cost approach is a summation approach, and the sum of the various components need not equal the total property value. To a great extent its validity will depend on the accuracy of measuring depreciation. For this reason, it tends to be most reliable on new installations. A well-documented cost approach, along with some good sound appraisal judgment, may produce a reliable value indicator. Also, it will provide an effective tool to be used in conjunction with the other approaches.

INCOME APPROACH

The income approach to value may be described as a method of appraising that converts an income stream into an estimate of value. It is predicated on the premise that value is equal to the present worth of future net benefits. It is most reliable for properties that generate benefits through money income and for this reason is a valuable tool for appraising ski resorts.

Developing the Income Stream

The income to be capitalized is the future net income that the property being appraised is capable of generating under typical management during its estimated productive life. This income can be developed as follows.

Property Rents

Income derived from property rentals is the most desirable form of income to use in any capitalization process. This approach avoids the problem of allocating the income between enterprise earnings and tangible property earnings. However, property rents are not typical of ski resorts. Rarely is an operating resort leased out to a tenant. The lack of recently negotiated property rentals has severely limited the application of this method.

Percentage of Gross Sales

The actual gross income produced by an operating ski resort reflects the contribution of the entire operating unit and may include some nontaxable property, such as a liquor license and working capital. The appraiser should segregate the income for the property to be appraised from the total operating revenue. This segregation can be made by imputing fair rents to the various departments at appropriate percentages of the departments' gross sales. Projected gross sales must represent a reasonable estimate based on past, present and perspective earnings. Also, percentages used for imputing rent must be market-derived.

The appraiser may find it helpful to estimate gross lift income on the basis of the projected number of lift ticket sales (skier days) times the anticipated revenue per ticket. Lift tickets sold are a measure of attendance which reflects the total number of lift tickets issued, including full day, half day, complimentary, adult, child, season and any other type of admission tickets that give

the skier use of the lift facility for a full or half day. The actual revenue per lift ticket sold should be analyzed in relation to comparable facilities to project future income. Data pertaining to such items as lift capacities, actual lift use, skiable days and skier days must be analyzed if this method of comparison is to have validity. In many cases data are either unavailable or unreliable.

An example showing the allocation between operating income and imputed rental income appears on page 31. When using this technique, the appraiser must deduct from imputed income only those expenses necessary to generate this income. This estimate of expenses is often subjective since books and records allocating expenses by department are not always available.

Operating Income

When evidence is inadequate to use the previously discussed methods, reference can be made to the gross anticipated operating income of a typical operator of a resort. Operating income may include income from selling merchandise, income attributable to skill of management, or income attributable to the goodwill of a going concern. This income must be eliminated from the net income stream to arrive at residual income attributable to the property under appraisement. This elimination is best made by making specific additions to real property oriented operating expenses. Cost of goods sold, the salaries of management and interest on working capital are items that should be added. Working capital is defined as the excess of current assets over current liabilities and will consist of cash funds, accounts receivable, inventories and prepayments, reduced by ordinary short-term liabilities. A working capital deficit is typical of ski resorts since most operators use short-term credit to purchase fixed, long-life assets. When this situation occurs, the appraiser should eliminate such payables (accounts and/or notes) from current liabilities before making his estimate of working capital. If a charge is not made against the income stream for nontaxable items such as automobiles or liquor licenses, their current value must be deducted from the capitalized earning ability.

Capitalization Rates and Methods

Due to the limited data available, the appraiser usually must rely on the band-of-investment method to estimate a capitalization rate. Once the capitalization rate has been established, the net income for a subject property can be converted into a total property value indicator by any of several accepted capitalization methods. A building residual technique combined with a declining income premise is the most commonly employed method. It should be remembered that the total property value will not include the value of nonincome-producing land. The value of such land will have to be added to the capitalized earning ability of the property.

The reader is referred Chapter III, AH 501, and Property Tax Rule 25 for a discussion of the accepted methods of rate derivation and capitalization.

SUMMARY OF A SKI RESORT APPRAISAL

The following example consists of a relatively new medium-size resort located on 350 acres of land leased from the federal government. Figures used in this summary have been rounded and are for demonstration purposes. **They should not be accepted as typical.**

Total Taxable Property Value

Total Property Value	$1,489,000	
Allocation:	$471,000	Possessory Interest--Land
	$861,000	Possessory Interest--Improvements
	$18,000	Inventory
	$139,000	Other Personal Property (Furnishings and Equipment)

Estimate of Possessory Interest Value--Indirect Method[18]

		Land	**Improvements**
Final Value of Rights if Held in Perpetuity		$500,000	$861,000
Reversionary Value		$500,000	0
Years Deferred: Rate; Factor 30/10%/.057			
Present Value of Reversion		-28,500	0
Preliminary Possessory Interest		$471,500	$861,000
Possessory Interest Value	Say,	$471,000	$861,000

Value of Perpetual Rights in Land Market Approach

Undeveloped Site Value (Based on Comparable Sales)	$300,000
Site Development Cost	200,000
Value Indicator	$500,000

[18] Application of the indirect method is discussed on pages 10 through 12.

Income Approach

$536,000 Gross Sales @ 8% (By Comparison)	
$42,880 Economic Rent ÷ 10% Cap Rate =	$428,800
Plus Land Available for Expansion	85,000
Value Indicator	$513,800

Value Range

$500,000 to $513,800
Conclude $500,000 land value (including $85,000 unused land available for expansion)

Cost Approach--Value of Rights Possessed in Perpetuity

	Age	RCN	Percent Good	RCLD
Lodge Building	3	$275,000	98%	$269,500
Maintenance Building	3	30,000	98%	29,400
Sewer System	3	10,000	95%	9,500
Water System	3	14,000	95%	13,300
Chairlift No. 1	3	125,000	95%	118,750
Chairlift No. 2	3	125,000	95%	118,750
Chairlift No. 3	2	125,000	98%	122,500
T-Bars (3)	3	100,000	92%	92,000
Asphalt Paving and Park	3	75,000	85%	63,750
Miscellaneous Construction	3	25,000	95%	23,750
		$904,000		$861,200
Rental Equipment	3	$24,000	90%	$21,600
Bar Equipment	3	7,500	84%	6,300
Restaurant Equipment	3	16,000	84%	13,440
Lodge Furnishings	3	20,000	84%	16,800
Office Furnishings and Equipment	3	3,000	84%	2,520
Fire Prevention Equipment	3	1,000	73%	730
Snow Removal Equipment	3	100,000	73%	73,000
Hill Maintenance Equipment	3	1,500	73%	1,100
Licensed Vehicles	3	7,500		(Not assessable)
Shop Tools	3	2,000	73%	1,460
Miscellaneous Equipment	3	3,000	73%	2,190
		$185,500		$139,140

Summation

Land	$500,000
Improvements	861,000
Personal Property	139,000
Total	$1,500,000

Income Approach--Value of Rights Possessed in Perpetuity

Projected Annual Income	Gross	Fair Rental	Imputed Net Rental
Lift Ticket Sales	$325,000	*42.5%	$138,000
Ski School Inc.	40,000	15.0%	6,000
Ski Rentals and Repairs	50,000	20.0%	10,000
Merchandise Sales	25,000	10.0%	2,500
Bar and Restaurant Sales	75,000	15.0%	11,250
Vending Machine Sales	20,000	15.0%	3,000
Miscellaneous	1,000	15.0%	150
	$536,000		$170,900

**Imputed Net Rental to Lift Facilities*

Expenses[19] (Allocation from records of subject and comparable ski resorts.)

Wages, Salaries and Resort Management	$85,000
Maintenance	9,000
Power	4,000
Lift Tickets and Supplies	3,500
Miscellaneous Lift Expense	2,000
Promotion	15,000
Travel	4,500
Insurance--General	28,000
Payroll Taxes and Workmen's Compensation Insurance	15,000
Accounting and Legal	13,000
Interest on Working Capital	1,000
Telephone	4,000
Office Supplies	2,000
Miscellaneous Expense	1,000
Total Expenses Relative to Operation of Lift Facilities	$187,000

[19] These expenses relate to the operation of the lift facilities. Net incomes are imputed to the other departments.

Projected Gross Lift Ticket Sales		$325,000
Less Total Lift Expenses		-187,000
Net Imputed Rental to Lift Facilities		$138,000

$138,000 ÷ $325,000 Total Gross Lift Ticket Sales = 42.5% Fair Rental Percentage
(Expense Ratio = $187,000 ÷ $325,000 = 57.5%)

Total Net Rental Income Imputable to all Sources		$170,900
Less Charges:		
Productive Land		
$415,000 @ 150%	$41,500	
Personalty[20]		
$138,000 RCN @ 16.7% (15 Yr. Life)	23,000	- 64,500
Net Income Imputable to Improvements		$106,400
Preliminary Improvement Value		
(REL 30 Yrs.) $106,400 ÷ 13.3% Cap Rate	$800,000	
Less Deferred Replacements Per Schedule[21]	- 52,000	
Improvement Value		$748,000
Plus Total Land Value (Includes $85,000 of Nonincome-Producing Land)		500,000
Total Real Property Value		$1,248,000

Correlation--Value of Rights Possessed in Perpetuity

	Cost Approach	**Income Approach**
Land	$500,000	$500,000
Improvements	861,000	748,000
Inventory	18,000	18,000
Other Personal Property	139,000	139,000
Total	$1,518,000	$1,405,000
		(Alternate $1,404,000)

[20] Excludes bar, restaurant and rental equipment. Includes licensed vehicles.
[21] Periodic capital outlays will be required if the lifts are to remain productive for the projected 30-year life. The cost of these partial replacements are deferred and deducted from the capitalized earning ability.

Since the property is relatively new, the cost approach seems more reliable. In this example, the income approach is considered less desirable due to the subjectivity of gross income, fair rental and expense estimates. Final value in perpetuity, say, $1,518.000.

Schedule of Replacements
(Based on REL 30 Years)

Lifts	Age	Estimated Life	Years Deferred	PW Factor @ 10%	RCN	Present Value
Nos. 1 and 2	3	15	12	.3186	$87,500 35% Repl.	$27,880
No. 3	2	15	13	.2897	$43,750 35% Repl.	$12,670
T-Bars	3	15	12	.3186	$35,000 35% Repl.	$11,150

Total Value of Deferred Replacement	$51,700
Say,	$52,000

Income Approach (Alternate)

Annual Projected Income (Includes Gross Lift Ticket Sales)	$357,900
Less Expenses @ 57%[22]	-204,000
Net Income	$153,900
Land Charge ($415,000 @ 10%)	-41,500
Net Income Imputable to Improvements and Personal Property	$112,400
Improvement and Personal Property Value ($112,400 ÷ 13.3% Cap Rate)	$845,110
Bar, Restaurant and Rental Equipment (RCLD)	41,340
Total Land Value	500,000
Total Property	$1,386,450
Say,	$1,386,000

[22] Established by analysis of subject and comparison with other ski resorts. Includes normal operating expenses and reserves for furnishings, machinery and equipment. Excludes charges for bar, restaurant and rental equipment.

CHAPTER 6: APPRAISAL RECORD

The appraisal record of a possessory interest varies somewhat from that of a fee-owned property. Since the appraisal may include a value estimate of the rights if held in perpetuity, standard building forms are necessary. The estimate of value for a possessory interest is recorded on a form entitled "Possessory Interest Appraisal Record." This form, which is reproduced on pages 36 and 37, serves as a recapitulation sheet. Note that the reverse side provides for an inventory of both improvement values and the value of the rights in land preparatory to the valuation of the limited estate--the possessory interest.

FRONT OF FORM

The top portion of this form is used for recording data relating to the creation of the possessory interest. It should be noted that the space opposite the heading "Term" is used for recording the term called for in the agreement, beginning and ending dates plus options, if any, and the contract rent. The space opposite "Desc." is used for describing the property rights possessed.

The middle portion of the form is used for recording in proper sequence the computations necessary to value the possessory interest in land and improvements by the indirect method. "Final Value of Rights if Held in Perpetuity" is the value arrived at by correlating the "Indicated Value of Rights if Held in Perpetuity" when more than one value indicator is available. The "Reversionary Value of Rights" held in land at the end of the term of possession is normally the same as the present value of the rights in land if held in perpetuity, while the value of reversionary rights in improvements is normally less than the present value of rights in improvements if held in perpetuity. Several blank lines appear below the outlined steps of the indirect method. These spaces are to be used for computing equity values on pre-*De Luz* leases (see Exhibit II, page 41).

The bottom portion of the form is used for recording total appraised and assessed values allocated between land and improvements.

BACK OF FORM

The top left-hand side of the form is used for recording the computations for the direct sales comparison approach. Equity sale prices of comparable properties of the subject are described and recorded in the columns and processed into value indicators for the subject property by making the necessary adjustments. The space for "Other Adjustments" is used for making adjustments to reflect such items as future demolition costs, site restoration costs, and salvage value.

The top right-hand side of the form is used for estimating possessory interest values by the direct income approach. Contract rents on the subject property and estimates of economic rents are recorded here. The economic rent and the contract rent will usually differ. The tax-exempt landlord usually does not receive a rental that includes an allowance for property taxes. However,

the economic rent is usually obtained from nonexempt properties, and the rentals received are higher than they would be if the tenants had to pay the taxes.

The bottom half of the form is used for recording the present value of improvements, computing the reversionary value of improvements at the end of the term of possession, estimating the land value as if the rights to make the permitted use were held in perpetuity and recording all pertinent remarks relating to the appraisal of the subject property. When computing the reversionary value for improvements that have different remaining economic lives, computations for each structure must be made and entered on separate lines. The total reversionary value of all improvements can then be carried to the front of the form.

POSSESSORY INTEREST APPRAISAL RECORD

LESSEE _____ Fee Owner _____ Parcel _____

Mailing Address _____ Property Address _____ Community _____

Permitted Use _____ Sheet _____ of _____ Sheets

Term _____ Desc. _____

Assessment Year								
Appraiser & Date								
POSSESSORY INTEREST IN LAND - INDIRECT APPROACH								
	Cost							
Indicated Value of Rights if Held	Mkt.							
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
POSSESSORY INTEREST IN IMPROVEMENTS - INDIRECT APPROACH								
	Cost							
Indicated Value of Rights if Held	Mkt.							
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
APPRAISAL								
Total Possessory Interest Value								
Possessory Interest Value in Land								
Possessory Interest Value in Improvements								
ASSESSED VALUES								
Possessory Interest in Land								
Possessory Interest in Improvements								
Total Possessory Interest								
Entered:								

SBE - DAS, AH 517, Front (12/71)

MARKET APPROACH-DIRECT

Assessment Year				
	SALE #	SALE #	SALE #	SALE #
Description				
Equity Sale Price / Date				
Adjustment for:				
Time Adjustment				
Annual Contract Rent				
Yrs. / Rate / P.V. Factor				
P.V. of Contract Rent				
Other Adjustments				
Adjusted Sale Price				
Comparability Adjustment				
Ind. Val. of Sub P. I.				

INCOME APPROACH-DIRECT

CONTRACT RENT	ECONOMIC RENT ESTIMATE

COMPUTATIONS

YEAR	TERM	@ %	RENT/MO.	ANNUAL RENT	INCOME PREMISE	PW FACTOR	PRELIMINARY P.I.	P. I.

COMPUTATION OF REVERSIONARY IMPROVEMENT VALUE

YEAR	DESCRIPTION	REL	TERM.	VALUE	REL - TERM ÷ REL X VALUE =	REVERSION

LAND VALUE COMPUTATION

(VALUE OF RIGHTS IF HELD IN PERPETUITY)

YEAR	AREA	UNIT VALUE	VALUE

REMARKS:

SBE - DAS AH 517 Back (12/71)

DEMONSTRATION APPRAISALS USING APPRAISAL RECORD

Four sample appraisals are shown on the next eight pages. The purpose of these samples is to demonstrate proper completion of the appraisal record. Other building records and back-up material necessary to arrive at the value of the property as if held in perpetuity are not included.

- Exhibit I (pages 38-39)--this appraisal demonstrates the use of the indirect method of valuation of an improved industrial property.
- Exhibit II (pages 40-41)--this appraisal demonstrates the use of the indirect method and the direct income method to arrive at the equity value of an improved industrial property subject to a pre-*De Luz* assessment.
- Exhibit III (pages 42-43)--this appraisal demonstrates the use of the direct sales comparison method applied to a lessee-erected cabin on U.S. Forest Service land.
- Exhibit IV (pages 44-45)--this appraisal demonstrates the use of the direct income method when applied to a grazing interest in government land.

POSSESSORY INTEREST APPRAISAL RECORD

LESSEE Marlow Mfg. Co. | Fee Owner City of Allendale | Parcel 12-073-14
Mailing Address 123 Water Road, Wichita, Kans. | Property Address 2700 Oak St. | Community Allendale
Permitted Use Manufacturing | Sheet 1 of _____ Sheets
Term 30 Years, 4-1-69 to 3-31-99 $3,000 / Mo. | Desc. 2.97 Acres Bldg. #402 & 403

Assessment Year		1971						
Appraiser & Date		JS 2-26-71						
POSSESSORY INTEREST IN LAND - INDIRECT APPROACH								
	Cost							
Indicated Value of Rights if Held	Mkt.	148,000						
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity		148,000						
Reversionary Value of Rights		148,000						
Years Deferred; Rate; Factor		28 8% .116						
Present Value of Reversion		17,170						
Preliminary Possessory Interest Value		130,830						
Possessory Interest Value		130,000						
POSSESSORY INTEREST IN IMPROVEMENTS - INDIRECT APPROACH								
	Cost	309,000						
Indicated Value of Rights if Held	Mkt.							
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity		309,000						
Reversionary Value of Rights		61,800						
Years Deferred; Rate; Factor		28 8% .116						
Present Value of Reversion		7,170						
Preliminary Possessory Interest Value		301,830						
Possessory Interest Value		300,000						
APPRAISAL								
Total Possessory Interest Value		430,000						
Possessory Interest Value in Land		130,000						
Possessory Interest Value in Improvements		300,000						
ASSESSED VALUES								
Possessory Interest in Land		32,500						
Possessory Interest in Improvements		75,000						
Total Possessory Interest		107,500						
Entered:								

SBE - DAS, AH 517, Front (12/71)

MARKET APPROACH-DIRECT					INCOME APPROACH-DIRECT	
Assessment Year						
	SALE #	SALE #	SALE #	SALE #	CONTRACT RENT	ECONOMIC RENT ESTIMATE
Description						
Equity Sale Price / Date						
Adjustment for:						
Time Adjustment						
Annual Contract Rent						
Yrs. / Rate / P.V. Factor						
P.V. of Contract Rent					COMPUTATIONS	
Other Adjustments					YEAR / TERM / @ % / RENT/MO. / ANNUAL RENT / INCOME PREMISE / PW FACTOR / PRELIMINARY P.I. / P. I.	
Adjusted Sale Price						
Comparability Adjustment						
Ind. Val. of Sub P. I.						

COMPUTATION OF REVERSIONARY IMPROVEMENT VALUE

YEAR	DESCRIPTION	REL	TERM.	VALUE	REL - TERM ÷ REL X VALUE =	REVERSION
1971	# 402 C5B	35	28	250,000		
	# 403 C5C	35	28	59,000		
				309,000	35 – 28 ÷ 35 = 20% X 309,000	61,800

LAND VALUE COMPUTATION
(VALUE OF RIGHTS IF HELD IN PERPETUITY)

YEAR	AREA	UNIT VALUE	VALUE
1971	2.97 AC.	50,000/ac.	148,000

REMARKS:

POSSESSORY INTEREST APPRAISAL RECORD

LESSEE Wire Brush Mfg. Co. | Fee Owner City of Allendale | Parcel 12-101-08
Mailing Address 246 Clayton Rd. Allendale | Property Address Same | Community Allendale
Permitted Use Manufacture of Wire Brushes | Sheet 1 of _____ Sheets
Term 24 Years 3-1-55 to 2-28-79 | Desc. 51,616 Sq.Ft. Land - Bldgs. #307, 308, 309, 310, 311

Assessment Year		1971						
Appraiser & Date		J.S. 2-26-71						
POSSESSORY INTEREST IN LAND - INDIRECT APPROACH								
	Cost							
Indicated Value of Rights if Held	Mkt.	62,000						
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity		62,000						
Reversionary Value of Rights		62,000						
Years Deferred; Rate; Factor		8 | 8% | .54						
Present Value of Reversion		33,500						
Preliminary Possessory Interest Value		28,500						
Possessory Interest Value		28,500						
Annual Rent (Contract)		3,620						
Years - Rate - Factor		8 | 8% | 5.75						
Present Value of Rents		20,810						
Equity Value		7,700						
POSSESSORY INTEREST IN IMPROVEMENTS - INDIRECT APPROACH								
	Cost	31,300						
Indicated Value of Rights if Held	Mkt.							
in Perpetuity:	Income							
Final Value of Rights if Held in Perpetuity		31,300						
Reversionary Value of Rights		20,000						
Years Deferred; Rate; Factor		8 | 8% | .54						
Present Value of Reversion		10,800						
Preliminary Possessory Interest Value		20,500						
Possessory Interest Value (Rounded)		20,000						
Annual Rent (Contract)		1,780						
Years - Rate - Factor		8 | 8% | 5.75						
Present Value of Rents		10,230						
Equity Value		9,770						
APPRAISAL								
Total Possessory Interest Value		17,500						
Possessory Interest Value in Land		7,700						
Possessory Interest Value in Improvements		9,800						
ASSESSED VALUES								
Possessory Interest in Land								
Possessory Interest in Improvements								
Total Possessory Interest Value								
Total Possessory Interest								
Entered:								

AH 517

MARKET APPROACH-DIRECT

	SALE #	SALE #	SALE #	SALE #
Assessment Year				
Description				
Equity Sale Price / Date				
Adjustment for:				
Time Adjustment				
Annual Contract Rent				
Yrs. / Rate / P.V. Factor				
P.V. of Contract Rent				
Other Adjustments				
Adjusted Sale Price				
Comparability Adjustment				
Ind. Val. of Sub P. I.				

INCOME APPROACH-DIRECT

CONTRACT RENT

$450 / Mo.

Land & Improvements

ECONOMIC RENT ESTIMATE

Bldgs	# 307	810 Sq²	@ $ .10 =	$ 80	
	308	3,116 Sq²	" .03 =	95	
	309	3,444 Sq²	" .03 =	100	
	310	2,000 Sq²	" .04 =	80	
	311	1,500 Sq²	" .06 =	90	
Land		40,746 Sq²	" .007 =	280	$725

COMPUTATIONS

YEAR	TERM	@ %	RENT/MO.	ANNUAL RENT	INCOME PREMISE	PW FACTOR	PRELIMINARY P.I.	P. I.
1971	8	8	$725	$8,700	CONST.	5.75	$50,000	50,000
	Loss		$450	$5,400	CONST.	5.75	–	31,050
							Equity Value	18,950

COMPUTATION OF REVERSIONARY IMPROVEMENT VALUE

YEAR	DESCRIPTION	REL	TERM.	VALUE	REL - TERM ÷ REL X VALUE =	REVERSION
1971	# 307 C5B	15	8	$ 5,000	15 – 8 ÷ 15 = 46% X $ 5,000	$ 2,300
	# 308 C5B	25	8	6,500	25 – 8 ÷ 25 = 68% X 6,500	4,400
	# 309 C6B	30	8	12,500	30 – 8 ÷ 30 = 73% X 12,500	9,100
	# 310 S4.5A	10	8	300	10 – 8 ÷ 10 = 20% X 300	60
	# 311 S5	20	8	7,000	20 – 8 ÷ 20 = 60% X 7,000	4,200
				$ 31,300		$ 20,060
					SAY	20,000

LAND VALUE COMPUTATION

(VALUE OF RIGHTS IF HELD IN PERPETUITY)

YEAR	AREA	UNIT VALUE	VALUE
1971	51,616 Sq²	$1.20	62,000

REMARKS:

1. Indirect method considered most valid. J.S. 2-26-71
2. Contract rent allocated to land & imps in the same proportion as the final value of rights if held in perpetuity – 67% to land and 33% to improvements. J.S. 2-26-71

POSSESSORY INTEREST APPRAISAL RECORD

LESSEE M. Bee | Fee Owner U.S.F.S. | Parcel 32-161-02
Mailing Address 206 Casaloma Dr. La Sala, Calif. | Property Address Cabin # 5 | Community Mt. Vernon
Permitted Use Cabin Site | Sheet 1 of _____ Sheets
Term Annual Permit $85 / Year | Desc. Lot # 5 Boulder Tract

Assessment Year		1971						
Appraiser & Date		S.J. 1-5-71						
POSSESSORY INTEREST IN LAND - INDIRECT APPROACH								
Indicated Value of Rights if Held in Perpetuity:	Cost							
	Mkt.							
	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
POSSESSORY INTEREST IN IMPROVEMENTS - INDIRECT APPROACH								
Indicated Value of Rights if Held in Perpetuity:	Cost							
	Mkt.							
	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
APPRAISAL								
Total Possessory Interest Value		17,500						
Possessory Interest Value in Land		3,500						
Possessory Interest Value in Improvements		14,000						
ASSESSED VALUES								
Possessory Interest in Land		875						
Possessory Interest in Improvements		3,500						
Total Possessory Interest Value		4,375						
Total Possessory Interest								
Entered:								

AH 517

MARKET APPROACH-DIRECT

Assessment Year	1971	1971		
	SALE # 1*	SALE # 2	SALE #	SALE #
Description	D6B - 1958 1400 Sq.Ft.	D6.5A - 1955 1500 Sq.Ft.		
Equity Sale Price / Date	$17,500/70	$16,000/70		
Adjustment for: – Pers. Prop.	–1,200	– 0 –		
Time Adjustment	– 0 –	– 0 –		
Annual Contract Rent	$85	$85		
Yrs. / Rate / P.V. Factor	20/8%/9.8	15/8%/8.5		
P.V. of Contract Rent	$ 835	$ 728		
Other Adjustments	– 0 –	– 0 –		
Adjusted Sale Price	$ 17,135	$ 16,728		
Comparability Adjustment	+ 700	+ 300		
Ind. Val. of Sub P. I.	$ 17,800	$ 17,000		

INCOME APPROACH-DIRECT

CONTRACT RENT	ECONOMIC RENT ESTIMATE

COMPUTATIONS

YEAR	TERM	@ %	RENT/MO.	ANNUAL RENT	INCOME PREMISE	PW FACTOR	PRELIMINARY P.I.	P. I.

COMPUTATION OF REVERSIONARY IMPROVEMENT VALUE

YEAR	DESCRIPTION	REL	TERM.	VALUE	REL - TERM ÷ REL X VALUE =	REVERSION
1971	D 6.5 B 1480 Sq.Ft.			$ 14,000		– 0 –

LAND VALUE COMPUTATION

(VALUE OF RIGHTS IF HELD IN PERPETUITY)

YEAR	AREA	UNIT VALUE	VALUE

REMARKS: * Confirmed Sale

Sale #2 – Purchaser considered term of possession in purchase price. Summer home will be utilized as Ranger headquarters at termination of current 20 year Permit issued in 1966. S.J. 1-5-71

POSSESSORY INTEREST APPRAISAL RECORD

LESSEE Hank Cattleman | Fee Owner U.S.F.S. – Sierra National Forest | Parcel 23-110-08

Mailing Address Route 2, Box 54 | Property Address T29 R7E | Community Sagebrush City

Permitted Use Grazing – Bear Valley Allotment | Sheet 1 of _____ Sheets

Term 10 Years 3-1-65 to 2-28-75 ($0.86 / AUM) | Desc. 1,000 AUM (Pairs)

Assessment Year		1971						
Appraiser & Date		S.J. 3-1-71						
POSSESSORY INTEREST IN LAND - INDIRECT APPROACH								
Indicated Value of Rights if Held in Perpetuity:	Cost							
	Mkt.							
	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
POSSESSORY INTEREST IN IMPROVEMENTS - INDIRECT APPROACH								
Indicated Value of Rights if Held in Perpetuity:	Cost							
	Mkt.							
	Income							
Final Value of Rights if Held in Perpetuity								
Reversionary Value of Rights								
Years Deferred; Rate; Factor								
Present Value of Reversion								
Preliminary Possessory Interest Value								
Possessory Interest Value								
APPRAISAL								
Total Possessory Interest Value		$ 20,000						
Possessory Interest Value in Land		20,000						
Possessory Interest Value in Improvements								
ASSESSED VALUES								
Possessory Interest in Land		$ 5,000						
Possessory Interest in Improvements		– 0 –						
Total Possessory Interest Value		$ 5,000						
Total Possessory Interest Entered:								

MARKET APPROACH-DIRECT				
Assessment Year				
	SALE #	SALE #	SALE #	SALE #
Description				
Equity Sale Price / Date				
Adjustment for:				
Time Adjustment				
Annual Contract Rent				
Yrs. / Rate / P.V. Factor				
P.V. of Contract Rent				
Other Adjustments				
Adjusted Sale Price				
Comparability Adjustment				
Ind. Val. of Sub P. I.				

INCOME APPROACH-DIRECT

CONTRACT RENT	ECONOMIC RENT ESTIMATE
$ .86 Per AUM.	$2.50 per AUM (Pair)
	$2.50 X 1,000

COMPUTATIONS

YEAR	TERM	@ %	RENT/MO.	ANNUAL RENT	INCOME PREMISE	PW FACTOR	PRELIMINARY P.I.	P. I.
1971	15*	9		$ 2,500	CONST.	8.06	$20,150	$20,000

COMPUTATION OF REVERSIONARY IMPROVEMENT VALUE

YEAR	DESCRIPTION	REL	TERM.	VALUE	REL - TERM ÷ REL X VALUE =	REVERSION

LAND VALUE COMPUTATION
(VALUE OF RIGHTS IF HELD IN PERPETUITY)

YEAR	AREA	UNIT VALUE	VALUE

REMARKS: * Cattlemen who purchase and lease comparable possessory interest grazing rights were found to reasonably anticipate a term of possession of approximately fifteen years. Economic rent assigned reflects the fact that the permitted use is actually for 1,250 animal unit months. (1,000 pairs at 1.25) S.J. 3-1-71